Executive Summary

The Magma Copper Case

Victor Forberger
Center for Urban and Regional Policy
Northeastern University

Magma Copper's new CEO, Burgess Winter, arrived in 1987 after the division was spun off by its parent company, Newmont, because of continuing financial losses. Winter's primary objective was to turn the ailing mining company around and restore it to financial health. He focused his initial efforts on trying to change the bitter and paternalistic labor relations within the company, but for the most part the unionized workers rebuffed his attempts. He was successful, however, in bringing in new management personnel to address labor relations issues at the mine. One of those was Marsh Campbell, Human Resources Vice-president.

Such new personnel, however, could not stem the growing animosity during the 1989 contract negotiations between the company and its unions. Magma brought in security forces that were housed in trailers on company property. One of those trailers "somehow" exploded and the CEO found himself dodging bullets in his living room. Fearing that the violence and retribution surrounding the earlier Phelps Dodge strike were about to be repeated, the parties agreed to a settlement largely on the union's terms.

With the 1989 labor agreement signed, a few union leaders still feared that unless the labor-management relationship changed quickly the events of 1989 would repeat themselves until the company went under or the union was broken. Bob Guadiana, the regional director of the United Steelworkers (USW) in Arizona, and Campbell as well as Winter began discussing how to enact a joint labor-management cooperation provision they had inserted into the 1986 labor agreement and funded in the 1989 contract. This provision called for a Joint Union-Management Coordinating Committee (JUMCC) that would coexist alongside the traditional collective-bargaining relationship.

Guadiana and Campbell called in a group of private labor-management consultants from the firm King, Chapman & Broussard, a company experienced in addressing labor-management cooperation. These consultants began almost immediately to investigate the existing relationship between the unions and the company. They interviewed a selected group of managers and union leaders to explore their respective commitment to forming a joint relationship gathered an enormous amount of financial and strategic information about the company. In addition, they also carried out their own investigation of the copper industry and Magma's competitive position to determine whether a joint process could even be successful.

The initial foray into a joint relationship began when the consultants brought a selected group of union and company leaders to a factory in Los Angeles to see firsthand how a joint labor-management relationship had turned that operation around. This visit convinced those on the tour that this move toward a joint relationship was at least workable. The consultants then devised a breakthrough meeting in October 1989 for a larger group of union and management representatives. This meeting helped to dissipate some of the animosity among the participants by allowing them finally to express their feelings about the working conditions at the company. A commitment to work together for the redesign of work processes emerged from that meeting. The company and the unions then established a series of team-building meetings for all the workgroups within the company so that they could begin acting on those objectives themselves. Guadiana and CEO Winter led off most of these meetings by delineating their respective commitment to the relationship. The consultants who organized these meetings then encouraged the participants through a series of exercises and discussions to begin rethinking current production practices and their relationships to their co-workers and immediate supervisors.

Over the next year and half and throughout every part of the company there were record productivity gains. The consultants and other personnel took on permanent positions coordinating the efforts of the JUMCC and the redesign proposals emanating from the various workgroups within the company. Each of these various teams worked on its own agenda with its own particular methods. The consultants qua managers became the communication channels for all these various teams, so that the joint process had an institutional dynamic separate from the traditional authority structure within the company or the unions. Once a workgroup decided what it wanted to do, it developed a proposal that went to a divisional committee for review and then to the JUMCC. If there was any dispute over the project that could not be resolved in these committees, the two co-chairs of the JUMCC, Guadiana and Campbell, had the authority to resolve the matter themselves.

Alongside their efforts for developing the capacity of the JUMCC and the resulting work redesign efforts, the outside consultants also organized special training for company managers. Both union and company officials were concerned that managers needed to shed their traditional authority in the workplace and develop new kinds of leadership through their collaboration with their employees. To that end, training for developing that new leadership capacity was essential.

Some setbacks did occur, as over twenty percent of the company's top leadership was replaced over that time and several union leaders originally involved in the effort lost re-election bids in the spring of 1991. Such electoral defeats, however, never truly jeopardized the joint relationship, as the new union leaders were still active participants in the joint process, if not among the most enthusiastic. Indeed, in 1991 a fifteen-year labor agreement that prevented any strikes or lock-outs for the next seven years was negotiated to assure unbroken operations at the mine, mill, and smelter. By preventing any work stoppages and securing the joint relationship within the collective bargaining agreement, this new contract made the joint relationship a de facto part of the workplace. Moreover, a gain-sharing plan that saw workers monetarily rewarded for the productivity gains for which they were responsible started paying out. In the very first year, gainsharing averaged over $4,700 per worker. Those productivity gains also allowed the company to begin the process of developing an adjacent ore supply that could extend the life of the mine well past the year 2000.

In 1993, as the excitement from the initial gains and the energy from the original participants began to wane, a new effort at extending the joint relationship was initiated. It was called the "Voice of Magma." At meetings under this initiative, workers and managers gathered to devise a company charter, working out exactly and to their satisfaction what kind of relationship they ultimately wanted. A new consultant group, Landmark, whose specialty was changing corporate culture, was brought in to reinvigorate the joint relationship through these meetings and to coordinate efforts at "re-creating the company." Along with the JUMCC, there would now be monthly and quarterly Voice of Magma meetings to make sure that the company and its workers had ample opportunity to reshape their work based on what they wanted in their jobs and what the copper market demanded of the company. As with the JUMCC, the goal was to assure that as many employees and managers as possible could attend these meetings devoted to restructuring work relations at specific company sites throughout the organization. The consultants coordinated these meetings as well as provided follow up on the decisions reached.

Because of these efforts, productivity gains continued to climb, making Magma Copper one of the most profitable copper mining companies in the world when once it had been among the least productive and least profitable. In late 1995, Broken Hill Properties of Australia (BHP) of Australia offered to purchase the company both to gain the now highly productive mining, smelting, and refining operations but also with the intent to learn from Magma how to extend the joint labor-management relationship to all its various units. The purchase was consummated in early 1996, making BHP the largest copper-producing company in the world.

Unfortunately, just when everything seemed to be going right, the bottom fell out of the copper market. When the price of copper plummeted soon after its purchase of Magma, BHP found itself under intense pressure to reduce costs as quickly as possible. BHP managers began examining every aspect of the business to determine its cost effectiveness, and so Magma's executives found their ideas constantly being second-guessed by BHP executives thousands of miles and an ocean away. Many of BHP's directives aimed at increasing cost-savings were ordered no matter the impact on the joint relationship. Within a few months of the purchase, Winter, who had become CEO of all of BHP's copper operations, left the company in frustration and many key managers involved in the joint relationship also began exiting along with the consultants. By 1997, the JUMCC had basically become a token operation and the Voice of Magma meetings had largely disappeared despite the efforts of a few to revive them.

As company losses continued to mount, BHP went through a series of management changes. With no improvement in world copper prices, BHP decided to get out of the copper business altogether in 1999 and it put its copper mines up for sale. When no buyers emerged, BHP made the decision to close its North American copper operations, including the mines associated with Magma. The improved labor relations and productivity boosts so many union members and company managers had so carefully crafted could not overcome the pressure of world markets or the decisions of absentee owners. What had become a spectacular success at building a productivity-enhancing joint partnership failed nonetheless for reasons completely outside the control of the company's management and its unions.